



Special Edition
FOR MEMBERS

Montana Public Employee Retirement Administration (MPERA)

December 2001

2001 Federal Legislation

Retirement Savings Opportunities Enhanced

New Federal tax laws provide exciting opportunities for participants in retirement plans.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) signed by President Bush June 7, 2001, contains some important opportunities and improvements for retirement plans administered by the MPERA.

The Public Employees' Retirement Board (the Board) has adopted the EGTRRA provisions summarized in this newsletter. All of the following plans administered by the Board and the MPERA are affected by these provisions.

- Public Employees' (PERS)
 - Defined Benefit Retirement Plan
 - Defined Contribution Retirement Plan
- Firefighters' (FURS)

- Game Wardens' and Peace Officers' (GWPORS)
- Highway Patrol Officers' (HPORS)
- Judges' (JRS)
- Municipal Police Officers' (MPORS)
- Sheriffs' (SRS)
- State of Montana 457 Deferred Compensation Plan (457 Plan)

Effective Dates

Most EGTRRA changes are effective for the taxable years beginning after December 31, 2001. Some EGTRRA changes are to be phased in over a period of years, while a few changes have delayed effective dates. Provisions in EGTRRA for the MPERA retirement plan members, as summarized in this newsletter, have an **effective date of January 1, 2002**, unless otherwise noted.

Highlights of the EGTRRA for our members . . .

- Increased opportunities for roll-overs and transfers between different types of retirement plans.
- Increased opportunities to purchase permissive service credit with funds from other retirement plans.
- Increased portability to move retirement accounts to a new job.
- Increased opportunities for consolidation of retirement plans.
- Increased deferral amounts in the 457 Plan.
- Flexible withdrawal opportunities in the 457 Plan.
- Tax credit for low and middle income savers in the 457 Plan.

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*Should any information in this
newsletter conflict with statute or
rules, the statute or rules will apply.*

MPERA Retirement Plans . . .

There are EGTRRA provisions pertinent to all Defined Benefit Retirement Plans administered by the MPERA. Following is a brief summary of these provisions. As stated earlier, these provisions have an effective date of January 1, 2002, unless otherwise noted.

Pertinent provisions will be applicable to the new Defined Contribution Retirement Plan as of July 1, 2002, the effective date of that Plan.

Rollovers

The EGTRRA provisions open many possibilities regarding the rollover of funds between retirement plans. This increases the opportunities for participants, surviving spouses, and alternate payees to consolidate and manage assets.

Retirement plan participants may roll over tax-deferred money **to** any eligible employer retirement plan. Rollovers are allowed **from** MPERA plans **to** other eligible employer retirement plans and IRAs when a member terminates employment.

Surviving spouses or alternate payees may also roll over tax-deferred money **from** the MPERA 401(a) plans **to** eligible employer retirement plans and IRAs.

Transfers

Tax-deferred contributions:

The EGTRRA provisions allow in-service transfers (trustee to trustee transfers) of eligible employer retirement plan assets and IRAs to purchase permissible service credit in qualified governmental defined benefit plans. This greatly

increases the ability of members in the defined benefit retirement plans to purchase service with tax-deferred money from other retirement plans they may have.

Taxed contributions:

The EGTRRA provisions allow a trustee-to-trustee transfer of taxed contributions **from** our 401(a) plans **to** a 401(a) defined contribution plan or an IRA that is willing to separately account for the after-tax contributions. It does not allow taxed contributions to be rolled over into a 401(a) defined benefit plan, a 457 plan or a 403(b) plan.

Note: **Rollovers** and **transfers** may be subject to the early withdrawal penalties and requirements of the new plan.

Mandatory Distributions

Required Distributions:

A non-vested member who terminates employment and has an account balance of \$5,000 or less must be paid their account balance in a lump sum. Alternately, the member may make written application to have the amount rolled over to an eligible plan.

Under the EGTRRA, the \$5,000 limit does not include rollovers into the member's account from other plans.

Minimum Distributions:

The EGTRRA requires the Treasury to update current life expectancy tables. The new tables should reflect a longer life expectancy, which in turn will result in lower required minimum payments. Future federal regulations will take these changes into account.

Retirement plans referenced in this newsletter which are administered by the MPERA:

401(a) Plan

A qualified public pension plan. The Defined Benefit Retirement Plans (DBRP) administered by the MPERA are 401(a) Plans. The new Defined Contribution Retirement Plan (DCRP) for PERS members is also a 401(a) Plan.

457(b) Plan

A tax-favored voluntary supplemental plan available to employees of states, municipalities, and other political sub-divisions. The State of Montana 457 Deferred Compensation Plan is available to employees of the state, the university system, and contracted political subdivisions.

Other retirement plans referenced in this newsletter:

401(k)

A tax-favored plan. Usually these plans are available to profit-making private employers and their employees, although certain non-profit employers may also adopt them.

403(b) Plan

Also a tax-favored plan, a 403(b) plan is available to employees of public school systems and certain non-profit employers, including schools, hospitals, and charitable organizations.

IRA

An Individual Retirement Account.

For 457 Plan Participants...

The EGTRRA provisions summarized below will be implemented January 1, 2002, for the State 457 Deferred Compensation Plan (457 Plan) administered by the Board and the MPERA. If you are a member of another 457 plan, please consult with the sponsor of that plan regarding EGTRRA changes.

Contributions

Contributions Limits:

The contribution limit for the 457 Plan will be the lesser of 100% of "includible compensation" or the applicable dollar limit. **The applicable dollar limit for 2002 will be \$11,000.** The limit will increase in \$1,000 increments each year until it reaches \$15,000 in 2006. After 2006, the limit will be indexed in \$500 increments.

Regular Catch-up Contributions:

Catch-up contributions during the three years prior to normal retirement age is to be increased from \$15,000 to twice the applicable dollar limit. (See above for the applicable dollar limit.)

Additional Catch-up Contributions:

Beginning in 2002, individuals, age 50 and older, will be able to make additional catch-up contributions except during the three years prior to normal retirement age when regular catch-up contributions are being made. (See above for regular catch-up contributions.)

Coordination with Other Plans:

Deferrals to other types of volun-

tary supplemental tax favored plans no longer reduce the amount that can be contributed to the 457 Plan.

Rollovers

The EGTRRA opens many possibilities regarding the rollover of funds between retirement plans. This increases the opportunities for members, surviving spouses, and alternate payees to consolidate and manage assets.

Participants may roll over tax-deferred money from other eligible employer retirement plans and IRAs to the 457 Plan. Rollovers are also allowed from the 457 Plan to other eligible employer retirement plans and IRAs.

Surviving spouses or alternate payees may also roll over money from 457 plans to eligible employer retirement plans and IRAs.

Note: These rollovers are subject to the 10% premature distribution penalty tax if distributed prior to age 59 1/2.

Transfers

The EGTRRA allows in-service transfers (trustee-to-trustee) of 457 Plan assets to purchase service credit in qualified governmental defined benefit plans as requested by the plan participant. Note: As this newsletter goes to press, Congress is reconsidering this provision.

Note: **Rollovers** and **transfers** may be subject to the early withdrawal penalties and requirements of the new plan.

Qualified Domestic Relations Orders

The EGTRRA permits qualified domestic relations orders to

transfer all or a portion of a participant's account to an alternate payee. Taxes on these distributions will be paid by the alternate payee.

The alternate payee may receive an **immediate** distribution of the portion of the participant's account to which they were granted rights. If the alternate payee is a member of the 457 Plan, the transfer may be made directly to the alternate payee's 457 Plan account.

Distributions

Minimum Distributions:

The EGTRRA requires the Treasury to update current life expectancy tables. The new tables should reflect a longer life expectancy, which in turn will result in lower required minimum payments. Future federal regulations will take these changes into account.

Flexible Distributions:

Under the EGTRRA, 457 Plan participants are no longer required to make a one-time irrevocable payout election to avoid taxation prior to distribution. Participants may elect to have distributions paid out in a lump sum, periodic payments or a life contingent annuity. If periodic payments are selected, participants may change their option (fixed amount or fixed duration) or amount once per calendar year. The ability to change periodic payments or convert to a lump-sum payout is available to all participants - including those currently receiving periodic payments.

(457 Plan continued on next page)

(457 Plan continued)

Tax Credits . . . For some 457 Plan Participants

With the EGTRRA changes, some lower and middle income participants may now be entitled to tax credits, in addition to favorable tax treatment, for their contributions to the 457 Plan. This will be effective for 2002 contributions.

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457 Plan Annual Review

The Employee Investment Advisory Council will begin their annual review of the investment options offered within the 457 Plan in February, 2002. Please watch the MPERA Web Site (see the address below) for meeting dates and times and information on the review. If you have comments or suggestions, please submit them in writing to the MPERA at: ATTN: 457 Plan, P.O. Box 200131, Helena, MT 59620-0131.

Check out our web site:

<http://www.discoveringmontana.com/doa/perb/perb.htm>

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